

Knox County Community Services Agency

**For the Year Ended
June 30, 1997**

Arthur A. Hayes, Jr., CPA

Director

Barbara K. White, CPA

Assistant Director

Kandi B. Thomas, CPA

Audit Manager

Suzanne Smotherman, CPA

In-Charge Auditor

Jon Zachary Barnum

Helen J. Vose

Staff Auditors

Dianne Mitchell McKay, CPA

Technical Manager

Erica V. Smith, CPA

Technical Analyst

Leslie Bethea

Editor

June 9, 1998

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
Knox County Community Services Agency
Knoxville, Tennessee 37917

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Knox County Community Services Agency, formerly the Knox County Community Health Agency, for the year ended June 30, 1997. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The agency's management has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/th
97/118

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Knox County Community Services Agency
For the Year Ended June 30, 1997

AUDIT OBJECTIVES

The objectives of the audit were to consider the agency's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

INTERNAL CONTROL FINDINGS

Proper Financial Procedures Were Not Followed

The agency overspent contract budgets, failed to review accounting ledgers, and did not oversee and review reports prepared by its accounting services provider (page 7).

Financial Responsibilities Were Not Properly Segregated

One employee performed all cash-receipting, purchasing, disbursing, and recordkeeping duties (page 9).

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

Audit Report
Knox County Community Services Agency
For the Year Ended June 30, 1997

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Knox County Community Services Agency For the Year Ended June 30, 1997

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Knox County Community Services Agency. The audit was conducted pursuant to Section 37-5-313, *Tennessee Code Annotated*, which authorizes the Comptroller of the Treasury to “make an annual audit of the program established by this part as part of the comptroller’s annual audit pursuant to Section 9-3-211.”

BACKGROUND

Tennessee’s 12 community health agencies were created by Chapter 567 of the Public Acts of 1989, known as the Community Health Agency Act of 1989. This legislation established a defined system of health services to make health care available to the indigent citizens of Tennessee. The community health agencies determined areas of need in their geographic areas and ensured that services were available to meet those needs.

In May 1996, legislation known as the Community Services Agency Act of 1996 replaced the community health agencies with the community services agencies. The purpose of these agencies is to coordinate funds and programs designated for the care of children and other citizens in the state.

The Knox County Community Services Agency’s administrative offices are in Knoxville, Tennessee. The governing body of the Knox County Community Services Agency is the board of directors. As of June 30, 1997, the board was composed of 12 members. (See Appendix.)

An executive committee, consisting of five board members, has the authority to act on behalf of the board of directors in the management of the agency’s property, affairs, and funds in extraordinary circumstances when the governing board cannot convene.

The agency’s programs are carried out by a staff under the supervision of the executive director, who is appointed by the Commissioner of the Department of Children’s Services subject to the approval of the board.

AUDIT SCOPE

The audit was limited to the period July 1, 1996, through June 30, 1997, and was conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the year ended June 30, 1997, and for comparative purposes, the year ended June 30, 1996. The Knox County Community Services Agency has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the agency's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," it included tests of compliance with applicable federal laws and regulations and consideration of internal control used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and OMB Circular A-133.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Knox County Community Services Agency, formerly the Knox County Community Health Agency, filed its report with the Department of Audit on September 30, 1996. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the agency has corrected previous audit findings concerning securing operating funds, following procedures regarding plan of operation revisions and amendments, and following Assessment and Care Coordination Team guidelines.

REPEATED AUDIT FINDING

The prior audit report also contained a finding concerning following contract procedures. This finding has not been resolved and is repeated in this report.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control Over Financial Reporting

As part of the audit of the agency's financial statements for the year ended June 30, 1997, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Reportable conditions, along with recommendations and management's responses, are detailed in the findings and recommendations. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our audit tests disclosed no instance of noncompliance that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the financial statements of the Knox County Community Services Agency.

**Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

October 31, 1997

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the financial statements of the Knox County Community Services Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 1997, and have issued our report thereon dated October 31, 1997. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of the agency's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We did, however, note certain other less significant instances of noncompliance that we have reported to the agency's management in a separate letter.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements.

The following reportable conditions were noted:

- Proper financial procedures were not followed
- Financial duties were not properly segregated

These conditions are described in the Findings and Recommendations section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above are material weaknesses.

We also noted other matters involving the internal control over financial reporting that we have reported to the agency's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/th

FINDINGS AND RECOMMENDATIONS

1. Proper financial procedures were not followed

Finding

The Knox County Community Services Agency did not prudently manage its financial activities. Because it did not follow proper accounting procedures, the agency overspent the Prevention Services for Families program budget as approved in the plan of operation and, did not monitor individual contract budgets for that program, resulting in one contract limit being exceeded. Also, the agency did not properly oversee and review accounting reports prepared by its accounting service contractor, the Knox County Finance Department.

The Prevention Services for Families Coordinator did not monitor program budgets to ensure enough funds were available for program expenditures. At year-end, the approved budget for Prevention Services for Families was \$120,624, but expenditures totaled \$258,792.64. Although the agency's board of directors had approved amendments to the Plan of Operation (budget) to accommodate the additional expenditures, the amendments were not immediately forwarded to the appropriate agencies (Department of Children's Services, Comptroller of the Treasury) for approval. In essence, expenditures were incurred before all parties approved the related budgetary changes.

Under the Prevention Services for Families program, the agency arranges individualized, community-based services through contracts with providers in the community. The program coordinator, however, did not monitor the contracts with these service providers by reconciling approved contract budgets with actual expenditures. Expenditures for one contract were over budget by \$14,758.96 (38%). *The Accounting Manual for Recipients of Grant Funds in Tennessee* states "The availability of funds must be determined before requisitions are approved."

Other problems were noted:

- Agency staff did not perform a reconciliation to confirm that refunds or reimbursements received through the mail or from walk-ins were accurately recorded. Also, agency personnel did not prepare cash receipts. *The Accounting Manual for Recipients of Grant Funds in Tennessee* states that the "employee(s) whose duty it is to receive cash should prepare a list of all receipts." Furthermore, the manual requires that deposits be reconciled with cash receipts.
- The agency transferred grantor revenue from the agency's Local Government Investment Pool account to the county finance departmental bank account but did not identify the program associated with the funds. Consequently, the agency could not ensure the funds were properly recorded. *The Accounting Manual for Recipients of*

Grant Funds in Tennessee states that “transactions are recorded as necessary (a) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements and (b) to maintain accountability for assets.” Additionally, grant funds must be accounted for “in a systematic manner that will facilitate the preparation of financial reports.”

- County employees made general journal entries but did not submit documentation supporting these entries to the agency for approval. Entries included payroll transfers, corrections, and purchases from the county supply store. *The Accounting Manual for Recipients of Grant Funds in Tennessee* indicates that all transactions should be approved. If journal entries are made without the agency’s review and approval, transactions may be incorrectly recorded.

Because of the reorganization from a community health agency to a community services agency, the agency’s acting executive director was also the executive director of another CSA. The accountant from the other CSA reviewed the Knox County CSA’s ledgers and then communicated obvious errors to either county officials or the agency staff. Although this review was helpful, the accountant did not have ready access to the support for individual transactions and thus could not perform a thorough review. The agency has now hired a full-time executive director and an accountant.

Recommendation

The executive director and the accountant should ensure that requirements set forth in *The Accounting Manual for Recipients of Grant Funds in Tennessee* and other relevant policies, procedures, and grant guidance are followed. Any changes to the Plan of Operation should be forwarded to the appropriate approval agencies in a timely manner. Additionally, contract budgets should be monitored for each program and each contract to ensure compliance with budgetary restrictions.

Management’s Comment

We Concur. The Knox County Community Services Agency has now hired a full-time executive director and an accountant to ensure proper financial procedures are followed. The accounting reports provided by the Knox County Finance Department are reviewed thoroughly each month by the accountant. The Prevention Services for Families Coordinator is closely monitoring program budgets to ensure enough funds are available for program expenditures. A report for each program budget is presented to the Board of Directors monthly. The Prevention Services for Families Coordinator is also monitoring each contract with service providers to ensure compliance with budgetary restrictions. All Plan of Operation Changes approved by the Board of Directors have been submitted to the Department of Children’s Services within one week of the approval.

2. Financial duties were not properly segregated

Finding

The Knox County Community Services Agency did not properly segregate cash-receipting, purchasing, disbursing, and recordkeeping duties. The office manager had the following responsibilities:

- processed all time sheets, prepared all payroll registers, received and distributed all payroll checks that were not direct deposited, and maintained all personnel files
- received cash and checks and prepared the deposit sent to the county
- performed the agency's purchasing, fixed asset recordkeeping, and receiving functions, and performed the annual inventory of fixed assets

These duties were all performed by the office manager because of the reorganization of Knox County Community Health Agency into the Knox County Community Services Agency. The reorganization also resulted in vacancies in the executive director and accountant positions. The acting executive director assigned the above tasks to the office manager. An executive director and accountant were not hired until July 1997. If duties are not adequately segregated, errors or irregularities may occur and not be detected.

Recommendation

The executive director and accountant at Knox County Community Services Agency should review the duties assigned to each employee and design an appropriate control structure which separates conflicting duties. Processing and preparing payroll register duties should be separated from personnel duties. The receipting of cash and checks should be separated from the duty of preparing the bank deposit. Duties concerning purchasing, record keeping, and receiving goods and services should also be separated. In addition, adequate management review over these areas should be instituted.

Management's Comment

We concur. The accountant will be responsible for processing and preparing payroll registers, preparing the bank deposit, and recordkeeping. The office manager will be responsible for personnel duties and purchasing. The receipting of cash and checks and the receiving of goods and services will be handled by an administrative specialist. The executive director will be responsible for adequate management review.

Independent Auditor's Report

October 31, 1997

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the accompanying combined balance sheets of the Knox County Community Services Agency, a component unit of the State of Tennessee, as of June 30, 1997, and June 30, 1996, and the related statements of revenues, expenditures, and changes in fund balances for the years then ended and the statement of changes in assets and liabilities of the agency fund for the year ended June 30, 1997. These financial statements are the responsibility of the agency's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Knox County Community Services Agency as of June 30, 1997, and June 30, 1996, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

The Honorable W. R. Snodgrass
October 31, 1997
Page Two

As discussed in Note 7 to the financial statements, the agency implemented Governmental Accounting Standards Board (GASB) Statement 27, "Accounting for Pensions by State and Local Government Employers," in conformity with generally accepted accounting principles.

The Schedule of Funding Progress for Knox County Community Services Agency is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 1997, on our consideration of Knox County Community Services Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/th

KNOX COUNTY COMMUNITY SERVICES AGENCY
COMBINED BALANCE SHEETS
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1997, AND JUNE 30, 1996

	June 30, 1997					June 30, 1996				
	Governmental Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)	Governmental Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
	General Fund	Agency Fund	General Fixed Assets	General Long-Term Obligations		General Fund	Agency Fund	General Fixed Assets	General Long-Term Obligations	
<u>Assets and other debit</u>										
Assets:										
Cash (Note 2)	\$ 126,370.48	\$ -	\$ -	\$ -	\$ 126,370.48	\$ 498.25	\$ -	\$ -	\$ -	\$ 498.25
Cash with Knox County Trustee (Note 2)	22,328.97	-	-	-	22,328.97	14,332.09	-	-	-	14,332.09
Investments	-	37,758.97	-	-	37,758.97	-	30,822.95	-	-	30,822.95
Prepaid item	3,000.00	-	-	-	3,000.00	2,027.00	-	-	-	2,027.00
Accounts receivable	3,331.53	-	-	-	3,331.53	-	-	-	-	-
Due from primary government (Note 3)	188,209.52	-	-	-	188,209.52	294,182.17	-	-	-	294,182.17
General fixed assets (Note 4):										
Furniture and equipment	-	-	36,884.06	-	36,884.06	-	-	21,886.06	-	21,886.06
Other debit:										
Amount to be provided for retirement of general long-term obligations (Note 5)	-	-	-	27,183.36	27,183.36	-	-	-	26,900.92	26,900.92
Total assets and other debit	\$ 343,240.50	\$ 37,758.97	\$ 36,884.06	\$ 27,183.36	\$ 445,066.89	\$ 311,039.51	\$ 30,822.95	\$ 21,886.06	\$ 26,900.92	\$ 390,649.44
<u>Liabilities, other credit, and fund balances</u>										
Liabilities:										
Accounts payable	\$ 21,232.39	\$ -	\$ -	\$ -	\$ 21,232.39	\$ 51,189.62	\$ -	\$ -	\$ -	\$ 51,189.62
Accrued payroll	15,495.13	-	-	-	15,495.13	16,129.49	-	-	-	16,129.49
Accrued payroll taxes and benefits	1,155.07	-	-	-	1,155.07	3,056.47	-	-	-	3,056.47
Accrued annual leave (Note 5)	-	-	-	27,183.36	27,183.36	-	-	-	26,900.92	26,900.92
Due to primary government (Note 3)	222,176.20	-	-	-	222,176.20	46,184.28	-	-	-	46,184.28
Due to local government	29,647.45	-	-	-	29,647.45	172,639.75	-	-	-	172,639.75
Amounts held in custody for others	-	37,758.97	-	-	37,758.97	-	30,822.95	-	-	30,822.95
Total liabilities	289,706.24	37,758.97	-	27,183.36	354,648.57	289,199.61	30,822.95	-	26,900.92	346,923.48
Other credit:										
Investment in general fixed assets (Note 4)	-	-	36,884.06	-	36,884.06	-	-	21,886.06	-	21,886.06
Fund balances:										
Reserved for prepaid item	3,000.00	-	-	-	3,000.00	2,027.00	-	-	-	2,027.00
Unreserved	50,534.26	-	-	-	50,534.26	19,812.90	-	-	-	19,812.90
Total other credit and fund balances	53,534.26	-	36,884.06	-	90,418.32	21,839.90	-	21,886.06	-	43,725.96
Total liabilities, other credit, and fund balances	\$ 343,240.50	\$ 37,758.97	\$ 36,884.06	\$ 27,183.36	\$ 445,066.89	\$ 311,039.51	\$ 30,822.95	\$ 21,886.06	\$ 26,900.92	\$ 390,649.44

The Notes to the Financial Statements are an integral part of this statement.

KNOX COUNTY COMMUNITY SERVICES AGENCY
 STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 FOR THE YEARS ENDED JUNE 30, 1997, AND JUNE 30, 1996

	General Fund	
	For the Year Ended June 30, 1997	For the Year Ended June 30, 1996
<u>Revenues</u>		
State grants and contracts	\$ 1,559,749.04	\$ 1,509,621.74
Interest	4,167.47	5,793.68
Total revenues	<u>1,563,916.51</u>	<u>1,515,415.42</u>
<u>Expenditures</u>		
Salaries and wages	710,008.85	777,581.80
Fringe benefits	216,790.81	224,740.45
Travel	22,442.40	21,864.15
Printing and duplicating	658.54	653.32
Utilities	12,407.57	13,034.61
Communications and shipping costs	76,537.98	72,394.19
Maintenance and repair	4,776.47	4,796.51
Professional services	34,164.63	-
Supplies	12,501.16	12,075.65
Rentals and insurance	80,315.47	82,033.55
Grants and subsidies	343,488.57	298,612.51
Training	1,435.00	1,390.00
Furniture and equipment (Note 4)	14,998.00	-
Other	1,696.70	445.00
Total expenditures	<u>1,532,222.15</u>	<u>1,509,621.74</u>
Excess of revenues over expenditures	<u>31,694.36</u>	<u>5,793.68</u>
Fund balances, July 1	21,839.90	16,046.22
Fund balances, June 30	<u>\$ 53,534.26</u>	<u>\$ 21,839.90</u>

The Notes to the Financial Statements are an integral part of this statement.

KNOX COUNTY COMMUNITY SERVICES AGENCY
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED JUNE 30, 1997

	<u>Balance</u> <u>July 1, 1996</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 1997</u>
<u>Assets</u>				
Investments (Note 8)	\$ <u>30,822.95</u>	\$ <u>13,909.69</u>	\$ <u>6,973.67</u>	\$ <u>37,758.97</u>
<u>Liabilities</u>				
Amounts held in custody for others (Note 8)	\$ <u>30,822.95</u>	\$ <u>13,909.69</u>	\$ <u>6,973.67</u>	\$ <u>37,758.97</u>

The Notes to the Financial Statements are an integral part of this statement.

Knox County Community Services Agency
Notes to the Financial Statements
June 30, 1997, and June 30, 1996

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

In May 1996, the Tennessee General Assembly replaced the community health agency (CHA) with the community services agency (CSA). Although the agency's mission has changed from providing health care services to indigent citizens in the state to coordinating care for children and other citizens in the state, CHA employees, financial assets and obligations, and fund balances now belong to the CSA. The Knox County CSA works in conjunction with the Tennessee Department of Children's Services and the Knox County government to coordinate "funds or programs designated for care of children and other citizens in the state."

Factors considered in determining reporting status were not affected by the above legislation. Title 37, Chapter 5, of *Tennessee Code Annotated* established the CSA as "a political subdivision and instrumentality of the state." The Knox County Community Services Agency is a component unit of the State of Tennessee and is discretely presented in the *Tennessee Comprehensive Annual Financial Report*. Although the CSA is a separate legal entity, the CSA is financially accountable to the state because the state approves the CSA's Plan of Operation (budget).

B. Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

C. Fund Structure, Basis of Accounting, and Measurement Focus

The financial records of the Knox County CSA are maintained on the modified accrual basis of accounting. Under this basis, revenues are recognized when they become measurable and available, and expenditures are recognized when the related fund liability is incurred.

Knox County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996

The general fund is presented using the flow of current financial resources measurement focus. The agency fund is custodial in nature and does not measure results of operations or have a measurement focus.

The agency's accounts are organized and operated on the basis of fund types and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental fund not recorded directly in that fund.

The agency's financial activities reported in the accompanying statements are classified into two fund types and two account groups:

Governmental Fund Type

General Fund—used to account for all resources not accounted for in another fund.

Fiduciary Fund Type

Agency Fund—used to account for *Internal Revenue Code*, Section 457, deferred compensation plan balances.

Account Groups

General Fixed Assets Account Group (GFAAG)—used to account for all the agency's fixed assets. The GFAAG is not a fund, but rather a management control and accountability listing of the agency's general fixed assets.

General Long-Term Obligations Account Group—used to account for capital leases and annual leave obligations. The General Long-Term Obligations Account Group is not a fund, but rather a separate set of self-balancing accounts that provides certain information about the agency's noncurrent liabilities.

Knox County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996

D. Totals (Memorandum Only)

The total columns of the combined balance sheets are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation.

E. Budgetary Process

Legislation requires the CSA board to submit an annual plan of operation for review and approval to the Commissioners of the Tennessee Departments of Children’s Services and Finance and Administration and to the Comptroller of the Treasury. As part of this plan, the CSA is to submit a financial plan for operating and capital expenditures. The agency’s financial plan is prepared on the modified accrual basis of accounting. The Plan of Operation may be amended during the year with the written approval of the commissioners and the Comptroller.

The agency does not have an annual appropriated budget. The Plan of Operation serves as an annual financial plan for budgetary purposes.

F. Investments

This classification consists of investments in the deferred compensation plan valued at fair value.

G. Prepaid Item

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

NOTE 2. DEPOSITS

Deposits with financial institutions to be categorized to indicate the level of custodial credit risk assumed by the agency. Category 1 consists of deposits that are insured or

Knox County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996

collateralized with securities held by the agency or by its agent in the agency's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the agency's name. Category 3 deposits are uncollateralized. This category includes any bank balance that is collateralized with securities held by the pledging financial institutions, or by its trust department or agent, but not in the agency's name.

At June 30, 1997, and 1996, the carrying amounts of funds held in the Local Government Investment Pool (LGIP) were \$126,070.48 and \$198.25, respectively. Custodial credit risk for cash in LGIP is presented in the Tennessee Comprehensive Annual Financial Report (CAFR) for the years ended June 30, 1997, and June 30, 1996.

At June 30, 1997, and 1996, the carrying amount of funds held in trust by the Knox County Trustee was \$22,328.97 and \$14,332.09, respectively. The Knox County Trustee's custodial risk is presented in the Knox County CAFR. The June 30, 1997, and June 30, 1996, Knox County CAFRs include both category 1 and category 2 collateral.

At June 30, 1997, and June 30, 1996, petty cash on hand was \$300.00.

NOTE 3. DUE FROM/TO PRIMARY GOVERNMENT

June 30, 1997

Due From:

Department of Children's Services—program funds	<u>\$188,209.52</u>
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Total due from primary government	<u><u>\$188,209.52</u></u>
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Due To:

Department of Children's Services—program funds	\$195,652.83
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Department of Employment Security—unemployment taxes	735.99
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Comptroller of the Treasury—audit fees	21,775.36
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Department of Finance and Administration—Office for Information Resources	<u>4,012.02</u>
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Total due to primary government	<u><u>\$222,176.20</u></u>
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Knox County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996

June 30, 1996

Due To:	
Department of Health—program funds	\$ 93,940.00
Department of Children’s Services—program funds	<u>200,242.17</u>
Total due to primary government	<u><u>\$294,182.17</u></u>
Due To:	
Department of Children’s Services—program funds	\$ 35,225.02
Department of the Treasury—retirement contributions	4,461.66
Department of Finance and Administration—Office for Information Resources	<u>6,497.60</u>
Total due to primary government	<u><u>\$ 46,184.28</u></u>

NOTE 4. GENERAL FIXED ASSETS

General fixed assets are recorded at cost and are not depreciated. Donations are recorded at fair value at the date of the donation.

The following changes in general fixed assets occurred during the year ended June 30, 1997:

	<u>Balance</u> <u>July 1, 1996</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 1997</u>
Furniture and equipment	<u>\$21,886.06</u>	<u>\$14,998.00</u>	<u>\$ -</u>	<u>\$36,884.06</u>

The following changes in general fixed assets occurred during the year ended June 30, 1996:

Knox County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996

	<u>Balance</u> <u>July 1, 1995</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 1996</u>
Furniture and equipment	<u>\$22,391.06</u>	<u>\$ -</u>	<u>\$505.00</u>	<u>\$21,886.06</u>

NOTE 5. GENERAL LONG-TERM OBLIGATIONS

The following changes in general long-term obligations occurred during the year ended June 30, 1997:

	<u>Balance</u> <u>July 1, 1996</u>	<u>Increases</u>	<u>Balance</u> <u>June 30, 1997</u>
Amount to be provided for retirement of general long-term obligations	<u>\$26,900.92</u>	<u>\$282.44</u>	<u>\$27,183.36</u>
Accrued annual leave	<u>\$26,900.92</u>	<u>\$282.44</u>	<u>\$27,183.36</u>

The following changes in general long-term obligations occurred during the year ended June 30, 1996:

	<u>Balance</u> <u>July 1, 1995</u>	<u>Increases</u>	<u>Balance</u> <u>June 30, 1996</u>
Amount to be provided for retirement of general long-term obligations	<u>\$25,093.55</u>	<u>\$1,807.37</u>	<u>\$26,900.92</u>
Accrued annual leave	<u>\$25,093.55</u>	<u>\$1,807.37</u>	<u>\$26,900.92</u>

NOTE 6. OPERATING LEASES

The agency leases office space and equipment to carry out its activities and to administer the various grant programs. Total expenditures under operating leases for

Knox County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996

space were \$74,295.47 for the year ended June 30, 1997, and for the year ended June 30, 1996. The leases were cancelable at the lessee's option.

In addition, the State of Tennessee has entered into a cancelable lease agreement for equipment on behalf of the agency. The agency reimburses the state for the lease payments each month. Total reimbursements to the state for the operating lease were \$49,670.09 for the year ended June 30, 1997, and \$34,707.13 for the year ended June 30, 1996. The agency is not obligated to continue making the lease payments should it discontinue use of the equipment.

NOTE 7. DEFINED BENEFIT PENSION PLAN

During the June 30, 1997, fiscal year, the agency implemented GASB Statement 27, "Accounting for Pensions by State and Local Government Employers." In accordance with that statement, at transition it was determined that a pension liability or asset does not exist for the plan.

A. Plan Description

All full-time employees are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The TCRS administers a defined benefit pension plan that provides retirement, disability, and death benefits as well as annual cost-of-living adjustments to plan members and beneficiaries. Benefit provisions are established in state statute found in Title 8, Chapters 34-37, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly. Amendments to the TCRS are not applicable to a political subdivision unless approved by the political subdivision's governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee, 37243-0230, or by calling 615-741-8202, ext. 139.

Knox County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996

B. Funding Policy

As authorized by the agency's board of directors, the agency pays the total pension contribution for its employees. A small number of employees whose contribution rate was greater than 5% prior to the adoption of a noncontributory system still contribute the excess over 5%. The agency is required to contribute an actuarially determined rate; the current rate is 7.81% of annual covered payroll. The agency contributed \$55,454.52 (7.81% of current covered payroll) for the fiscal year ended June 30, 1997. The contribution requirements of plan members are set by state statutes and approved by the political subdivision's governing body. Contribution requirements for the agency are established and may be amended by the TCRS' Board of Trustees.

C. Annual Pension Cost

The agency's annual pension cost of \$55,454.52 for fiscal year 1997 met the agency's required contribution.

The required contribution was determined as part of the June 30, 1995, actuarial valuation using the frozen initial liability actuarial cost method, a projected-benefit cost method. Significant actuarial assumptions used include (a) rate of return on investment of present and future assets of 8% a year compounded annually, (b) projected salary increases of 7% a year (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries) compounded annually, (c) projected 6% annual increase in the social security wage base, and (d) projected post-retirement benefit increases of 3% of the retiree's initial benefit. The actuarial value of the agency's assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a five-year period. Amortized book value is used for fixed-income securities. The agency's unfunded actuarial accrued liability is being amortized as a level-dollar amount of projected payroll on a closed basis. The remaining amortization period at June 30, 1995, was 22 years.

Three-Year Trend Information

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 1997	\$55,454.52	100%	\$ -

Knox County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996

Information is shown only for the year available. Additional years will be shown as they become available.

NOTE 8. DEFERRED COMPENSATION PLAN

The Knox County Community Services Agency offers its employees a deferred compensation plan in accordance with *Internal Revenue Code* Section 457. The plan, available to all agency employees, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or emergency.

Section 457 plan balances have been reported as an agency fund in the financial statements. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights, are (until paid or made available to the employee or other beneficiary) solely the property and rights of the agency (without being restricted to the provisions of benefits under the plan), subject only to claims of the agency's general creditors. Participants' rights under the plan are equal to those of general creditors of the agency in an amount equal to the fair value of the deferred account for each participant. The agency has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The agency believes it is unlikely that it will use these assets to satisfy the claims of general creditors in the future.

NOTE 9. CONTINGENCIES

Sick Leave—The agency records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The amount of unused sick leave was \$22,781.94 at June 30, 1997, and \$23,919.78 at June 30, 1996.

NOTE 10. RISK MANAGEMENT

The agency is exposed to various risks of loss related to general liability; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Knox County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996

- A. The agency carries commercial insurance for risks of loss of its personal property and surety bond coverage for risks of employee dishonesty. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.
- B. The agency participates in the State of Tennessee's Claims Award Fund. The Claims Award Fund is an internal service fund in which the state has set aside assets for claim settlement. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the participating agencies based on a percentage of each agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation.
- C. The agency has elected to provide health coverage for its employees through a health plan for eligible local governments and quasi-governmental agencies in Tennessee. The Local Government Group Insurance Fund provides access to affordable health insurance by pooling risk among the groups. The plan provides for greater stability in controlling premium increases and, through a structured managed care program, helps contain health care costs of participating members.

The plan is administered by the State of Tennessee, using a separately established fund. To this fund, premiums of participating units are deposited and used to pay claims for health care costs of participants, as well as the state's administrative costs of the plan. The agency's obligation under the plan is limited to 80 percent of the total premiums. The employees are responsible for the remaining 20 percent of the total premiums. Employees have the option of obtaining insurance through either Blue Cross Blue Shield of Tennessee, Inc., or Health Source Tennessee, Inc. Claims are administered by these companies, which are currently under contract to provide these and other services to the state. Insurance premiums are adjusted at the end of the year based on the claims experience of the pool. Individual pool participants are not assessed additional premiums based on individual claims experience. Employees and providers have 13 months to file medical claims under Blue Cross Blue Shield of Tennessee, Inc., and Health Source Tennessee, Inc.

KNOX COUNTY COMMUNITY SERVICES AGENCY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS FOR
 KNOX COUNTY COMMUNITY SERVICES AGENCY

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Funding Excess) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded (Funding Excess) AAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/97	\$356,784	356,784%	\$ -	100%	\$709,811.85	0%

Information is shown only for the year available. Additional years will be shown as they become available.

Changes in Actuarial Assumptions

An actuarial valuation was performed as of June 30, 1997, which established subsequent contribution rates. As a result of the June 30, 1996, experience study, significant actuarial assumptions used in the valuation included (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 5.5% a year (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries) compounded annually, (c) projected 4.5% annual increase in the social security wage base, and (d) projected post-retirement increases of 3% annually of the retiree's initial benefit. The actuarial assumptions set forth in (a), (b), and (c) above for the June 30, 1997, valuation differ from the assumptions used in the June 30, 1995, valuation. The June 30, 1997, actuarial valuation also utilized a different methodology for the actuarial value of assets. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a five-year period.

APPENDIX

KNOX COUNTY COMMUNITY SERVICES AGENCY

David A. Strauss, Acting Executive Director

BOARD OF DIRECTORS

Board Officers

Libby Tarpy - Chair
Cynthia Teague - Vice Chair
Annie M. Jones - Treasurer
Ann Ince - Secretary
Richard Bean - Sergeant-At-Arms

Other Members of the Board of Directors

Pat Crippins
Judge Carey Garrett
Dr. Stephanie Hall
Mike Harkleroad
Mary Ann House
Bobbie McGarity
Sue Methrin